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June 16, 2005

Chairman Jeff Hatch-Miller
Commissioner William A. Mundell
Commissioner Marc Spitzer
Commissioner Mike Gleason

Re: MCI-Verizon Merger, Docket No. T-01846B-05-0279; T-03258A-05-0279; T-03475A-05-0279; T-03289A-05-0279; T-03198A-05-0279; T-03574A-05-0279; T-02431A-05-0279; T-03197A-05-0279; T-02533A-05-0279; T-03394A-05-0279; T-03291A-05-0279

Dear Colleagues:

In what would be another seminal merger in the telecommunications industry, Verizon Communications has proposed to combine with MCI, Inc. This proposed pairing has wide-ranging implications for the industry as a whole and will likely raise important public policy questions for the Commission.

Unfortunately, the companies through their legal counsel have, in individual meetings with Commissioners and staff, indicated that they intend to file a withdrawal of their Notice of Intent filed pursuant to A.A.C. R14-2-803, the Affiliated Interest Rule. The companies are relying upon waivers granted years ago to their prior corporate entities. The companies argue that they do not believe a hearing before the Commission or Commission review of their proposed merger is necessary. I disagree with this position on a number of fronts.

Conditions in the industry and at the Commission have changed greatly since these waivers were implemented. When the waivers were granted to the combining companies' predecessors, little competition existed in the telecommunications industry. The thought of significant telecommunications consolidation was virtually unheard of. Such is no longer the case, evidenced by this proposal and the proposed SBC-AT&T combination.

Additionally, no Commission order has recognized the transfer of these waivers from Contel to GTE and now to Verizon. Absent the existence of such a transfer, it is difficult to understand how a claim for waiver of A.A.C. R14-2-803 could be made. Nevertheless, despite the companies' argument, the Commission could also address whether such waivers are still operative or should be operative on an ongoing basis.

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Finally, it has been increasingly the practice of this Commission to closely scrutinize mergers, understanding that they play an important role in the lives of Arizonans and our economy. A look at the aftermaths of past telecommunication mergers demonstrates how critical the approval of, and conditions that may be placed on those mergers, can be. In light of the MCI-WorldCom and Qwest-US West mergers, I believe it is in the best interest of Arizona consumers for the ACC to closely examine all mergers.

It is my understanding that in mid-May, Commission Staff asked both companies to propose a procedural schedule for the case in order to agree on a time frame to file a stipulation with the ALJ. Staff did not hear back from the companies on this issue and were therefore forced to file their own request for procedural schedule. In the interim, the proposed SBC-AT&T merger was filed. Since the procedural schedule has already been set in the SBC-AT&T merger docket, and because some members of the Staff are working on both cases, Commission Staff must develop a schedule in this case that allows them to devote a reasonable amount of time on each application without being rushed on either.

I welcome your thoughts on the question of whether we should pursue a thorough examination of this proposed merger.

Sincerely,



Kris Mayes
Commissioner

Cc: Brian McNeil
Heather Murphy
Ernest Johnson, Director, Utilities Division
Chris Kemply, Chief Counsel
Maureen Scott, Legal Division
Parties to the Docket